

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER Of The Application)	
Of The MOUNTAIN STATES TELEPHONE)	
AND TELEGRAPH COMPANY (MOUNTAIN))	UTILITY DIVISION
BELL) For Authority To Increase)	DOCKET NO. 83.3.18
Rates And For Approval Of Tariff)	INTERIM ORDER NO. 4991
Changes For Telecommunications)	
Service.)	
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FINDINGS OF FACT

1. On March 28, 1983, Mountain Bell (Applicant or Company) filed its verified Application For Authority To Increase Rates And For Approval Of Tariff Changes. The Company requested an increase in annual revenues of \$20,710,000.
2. Concurrent with the filing of the application, Mountain Bell filed its verified Application For Interim Relief pursuant to 69-3-304, MCA, and the Commission Rules, 38.5.501, et seq., A.R.M. . which address the granting of interim relief by this Commission.
3. The verified Application For Interim Relief seeks authority to increase rates, on an interim basis, in the amount of 8,512,104, inclusive of independent company settlements.
4. Pursuant to the Commission's rules on interim rate increases, ARM, Sections 38.5.501, et seq., Applicant has given proper notice of its interim rate increase request. Such notice was given to the Montana Consumer Counsel, parties to Applicant's most recent general rate increase application, and to media of general dissemination statewide. The notice advised interested parties to advise the Commission quickly of any comments relative to the request.

5. Section 69-3-304, MCA, and 38.5.501, et. seq., ARM, specifically authorize this Commission to temporarily approve increases in rates subject to rebate pending a hearing or final decision.

6. The interim relief request is based upon a test year ending December 31, 1982. The supporting materials filed in connection with the request for interim relief reflect that the test year booked net utility operating income and test year average rate base are normalized and annualized; further, that Mountain Bell has made adjustments that were made in the most recent Commission general rate order in Docket No. 82.2.8 utilizing the same methodology and rate of return specified in that order and applied to the filed test year amounts.

7. The Application For Interim Relief contains two proposed adjustments or modifications to the last Commission general rate case order. The Company requested the increased intrastate depreciation expense on CPE calculated by using the remaining life depreciation rate most recently prescribed by the FCC. This increased depreciation expense was denied in Order No. 4951 in Docket No. 82.6.37. The Company also requested that the Commission allow License Contract expenses calculated as 1% of appropriate revenues. The Commission disallowed License Contract expense in its entirety in Order No. 4948 in Docket No. 82.2.8.

8. The Commission finds that consideration of these two items in an interim request is not warranted. The Commission examined both of these issues in recent orders and upholds the interm rules established by this Commission (and supported by Mountain Bell) which require that any adjustments made in the most recent Commission orders of the utility will also be made to test year revenues, expenses and rate base when considering an interim request.

9. The Commission finds that Mountain Bell is entitled to interim relief in the amount of \$3,623,000 on an annual basis as follows:

1.	Average Rate Base	\$201,677
2.	Rate of Return	<u>11.70%</u>
3.	Required N.O.I.	23,596
4.	Adjusted N.O.I.	<u>20,254</u>

5.	N.O.I. Deficiency	3,142
6.	Net To Gross Multiplier	<u>2.0258</u>
7.	R.R. Before Adjustments	6,770
8.	CPE Depreciation	(1,883)
9.	License Contract Expense	<u>(1,264)</u>
10.	Revenue Requirement	<u>\$ 3,623</u>

The Commission recognizes that because of rate increases granted herein, Mountain Bell will incur additional expenses in its toll settlement procedures with independent telephone companies. The Commission finds that the Company is entitled to \$612,593 in annual revenues to offset increased settlement expenses.

10. Mountain Bell proposed an interim rate design structured to recover an additional \$8.512 million in annual authorized revenues. The proposal, as provided in Schedule 1, follows the Mountain Bell prefiled testimony which proposes a restructuring of Multi-Element Service Charges, substantial increases for Private Line services, and a major residual increase to Basic Exchange and Related services (see Marquardt prefiled testimony, p. 35-38).

Schedule 1

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Mountain Bell Proposed Interim Rate Effect

<u>Service Category</u>	<u>Revenue Effect</u>
Multi-Element Service Charge	\$3,847,893
Private Line	\$ 688,026
BRA Modification	(39,881)
Basic Exchange	<u>\$4,016,067</u>
Total	\$8,512 104

¹Testimony of L. F. Marquardt, p. 35

11. A major procedural problem with the Mountain Bell proposal is that it would require the Commission to establish Findings of Fact with respect to the appropriateness of service charge levels, private line rates, as well as all other rates elements, prior to the benefit of a public hearing or even intervenor testimony. The Commission finds this prejudgment inappropriate. The subject of, for example, private line rates, is clearly debatable. Likewise, the proposed restructuring of service charges represents a major change in pricing which at least warrants the opportunity for public hearing.

12. The Commission generally authorizes interim rate increases based on a uniform percent increase to all rate elements. It is only through these uniform percent increases that the existing rate design, as approved by the Commission subsequent to a full rate proceeding, is left intact.

13. While a uniform percent increase as applied to most utility services is a straightforward matter, its application to the telephone utilities presents several difficulties. At the request of the staff, Mountain Bell addressed several uniform percent options (see L. F. Marquardt letter, April 5, 1983). In addition to the obvious inability to increase coin telephone rates and fixed contract rates, Mountain Bell pointed out transaction costs, CPE deregulation, and rebate problems, among others.

14. The Commission finds that the \$4.236 million in authorized revenues shall be recovered through an interim surcharge on each access line USOC on a uniform percentage basis. This interim surcharge would have the benefit of minimal transaction costs, accountability for purposes of a potential rebate, equity in that each customer has an access line, as well as recognition that access has been historically residually priced.

15. The Commission wishes to emphasize that the effect of the interim revenue increase on rates is an interim surcharge only. The interim surcharge will be eliminated upon implementation of a final order in this Docket. In the case that final rates for access line services are less than those resulting from the interim surcharge, the Commission reserves the right to make appropriate rate adjustments in the final order such that revenues collected from access line services under the interim and final orders together are commensurate on an annual basis to the rates ultimately found appropriate. This may necessitate amortizing any amount that is overcollected from access line services during the interim period, thereby requiring a temporary negative surcharge for access line services if the rates for those services in the final order are less than the interim surcharge rates. Such a phenomenon could occur even if the overall revenues granted in the final order for all services exceeds the revenues granted in this interim order.

16. The authorized increase in revenues - - \$4,236 million ———

equates to a 12.71% interim surcharge ¹ per USOC. Schedule 2 provides illustrative rate effects.

Schedule 2

Illustrative Rate Effects (\$/Mth)

<u>USOC</u>	<u>Monthly Rate</u>	<u>Interim Surcharge</u>	<u>Total Interim Rate</u>
1FR	6.78	.86	7.64
IFB—1	17.64	2.24	19.88
IFB—2	24.76	3.15	27.91

¹The percentage amount will vary due to 1) the final settlement calculation and 2) the final effect of Docket No. 82.11.73 (RTIP) which is not fully reflected in the original 83.3.18 filing.

CONCLUSIONS OF LAW

1. Applicant, The Mountain States Telephone and Telegraph Company, is a corporation providing telephone and other communications services in the state of Montana, and as such, is a public utility in the meaning of 69-3-101, MCA.

2. The Montana Public Service Commission properly exercises its jurisdiction over Applicant's Montana operations pursuant to Title 69, Chapter 3, MCA.

3. Section 69-3-304, MCA, provides in part:

“The Commission may, in its discretion temporarily approve increase pending hearing or final decision.”

4. The rate levels and spread approved herein are a reasonable means of providing interim relief to Mountain Bell and are just, reasonable and not unjustly discriminatory.

ORDER

1. Mountain States Telephone and Telegraph Company is hereby granted authority to implement, on an interim basis, increased access line services rates designed to generate \$4,235,593 in additional annual revenues.

2. The increased revenues authorized herein shall be collected from tariffed services in the manner described in the Findings of Fact of this order. In addition, the Company is authorized to reflect the Sidney and Billings Base Rate Area Modifications in its complying price outs.

3. The increased rates authorized herein shall be effective upon the filing and approval of revised tariffs consistent with this order.

4. Interim rates granted herein are subject to rebate should the final order in this Docket determine that a lesser increase in annual revenues is warranted. Such a

rebate would include compound interest pursuant to Section 69-3-302, MCA, as amended by Senate Bill No. 305, 1983 Legislature.

DONE IN OPEN SESSION at Helena, Montana this 3rd day of June, 1983, by a
4 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

Thomas J Schneider, Chairman

Howard L Ellis, Commissioner

Clyde Jarvis, Commissioner

Danny Oberg, Commissioner

ATTEST:

Madeline L. Cottrill
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.